

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Au Gres-Sims Police Board	County Arenac
Fiscal Year End June 30, 2006	Opinion Date December 15, 2006	Date Audit Report Submitted to Sate January 2, 2007	

We affirm that:

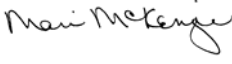
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- |     | YES                                 | NO                                  | Check each applicable box below. (See instructions for further detail.)   |
|-----|-------------------------------------|-------------------------------------|---|
| 1.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.   |
| 2.  | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.   |
| 3.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.  |
| 4.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The local unit has adopted a budget for all required funds.   |
| 5.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | A public hearing on the budget was held in accordance with State statute.   |
| 6.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.   |
| 7.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.  |
| 8.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The local unit only holds deposits/investments that comply with statutory requirements.   |
| 9.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin).  |
| 10. | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The local unit is free of repeated comments from previous years.  |
| 12. | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The audit opinion is UNQUALIFIED.   |
| 13. | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).  |
| 14. | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The board or council approves all invoices prior to payment as required by charter or statute.  |
| 15. | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely.  |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.		Telephone Number 989-793-9830	
Street Address 3023 Davenport		City Saginaw	State MI
Zip 48605			
Authorizing CPA Signature 	Printed Name Mari McKenzie	License Number 10725	

**Au Gres-Sims Police Board**

**Au Gres, Michigan**

**Annual Financial Statements**

**and**

**Auditors' Report**

**June 30, 2006**

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**Au Gres-Sims Police Board**  
**List of Elected and Appointed Officials**  
**June 30, 2006**

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POLICE BOARD

JOSEPH WARR

THOMAS ENNES

STEVE PAYNE

GARY FOCO

CHAIRMAN

VICE CHAIRMAN

SECRETARY

TREASURER



3023 Davenport  
Saginaw, MI 48602  
Phone (989) 793-9830 / (800) 968-0010  
Fax (989) 793-0186

## **Independent Auditors' Report**

Members of the Police Board  
Au Gres-Sims Police Board  
Au Gres, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Au Gres-Sims Police Board as of and for the year ended June 30, 2006, which collectively comprise the Board's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Au Gres-Sims Police Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Au Gres-Sims Police Board as of June 30, 2006 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information identified in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Au Gres-Sims Police Board has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not a required part of, the basic financial statements.

*Yeo & Yeo, P.C.*

Saginaw, Michigan

December 15, 2006

**Au Gres-Sims Police Board**  
**Statement of Net Assets**  
**June 30, 2006**

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	Primary Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 8,227
Capital assets - net	<u>19,070</u>
Total assets	<u>27,297</u>
<b>Liabilities</b>	
Accounts payable	<u>1,414</u>
<b>Net Assets</b>	
Invested in capital assets	19,070
Unrestricted	<u>6,813</u>
Total net assets	<u><u>\$ 25,883</u></u>

See Accompanying Notes to Financial Statements

**Au Gres-Sims Police Board**  
**Statement of Activities**  
**Year Ended June 30, 2006**

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Functions/Programs	Program Revenues				Net (Expense) Revenue and
	Expenses	Charges for	Operating	Capital	Changes in Net Assets
		Services	Grants and	Grants and	Total
			Contributions	Contributions	Governmental
					Activities
<b>Primary government</b>					
Governmental activities					
Public safety	\$ 167,142	\$ 150,000	\$ -	\$ -	\$ (17,142)
General revenues					
Unrestricted investment earnings					87
Insurance recoveries					7,989
Miscellaneous					3,101
Total general revenues					11,177
Change in net assets					(5,965)
Net assets - beginning					31,848
Net assets - ending					\$ 25,883

See Accompanying Notes to Financial Statements



**Au Gres-Sims Police Board**  
**Balance Sheet - Governmental Funds**  
**June 30, 2006**

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	General Fund
<b>Assets</b>	
Cash and cash equivalents	\$ 8,227
<b>Liabilities and Fund Balance</b>	
Liabilities	
Accounts payable	\$ 1,414
Fund Balance	
Designated for	
Vehicles and equipment	6,016
Unreserved	
Other undesignated	797
Total fund balance	6,813
Total liabilities and fund balance	\$ 8,227
<b>Reconciliation of Balance Sheet - Governmental Funds to the Statement of Net Assets</b>	
<b>Total fund balances for governmental funds</b>	\$ 6,813
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	19,070
<b>Net assets of governmental activities</b>	\$ 25,883

See Accompanying Notes to the Financial Statements

**Au Gres-Sims Police Board**  
**Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds**  
**Year Ended June 30, 2006**

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	General Fund
<b>Revenues</b>	
Local contributions	\$ 1,000
Charges for services	150,000
Interest income	87
Other revenue	<u>2,101</u>
Total revenues	<u>153,188</u>
<b>Expenditures</b>	
Current	
Public safety	<u>157,012</u>
Deficiency of revenues under expenditures	<u>(3,824)</u>
<b>Other financing sources (uses)</b>	
Insurance recoveries	<u>7,989</u>
Net change in fund balance	4,165
Fund balance - beginning	<u>2,648</u>
Fund balance - ending	<u><u>\$ 6,813</u></u>
<b>Reconciliation of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities</b>	
<b>Net change in fund balances - governmental funds</b>	\$ 4,165
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	<u>(10,130)</u>
<b>Change in net assets of governmental activities</b>	<u><u>\$ (5,965)</u></u>

See Accompanying Notes to the Financial Statements

**Au Gres-Sims Police Board**  
**Notes to Financial Statements**  
**June 30, 2006**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity**

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. The Police Board is governed by a four member board which has oversight and responsibility over all activities. Based on the significance of any operational or financial relationship with the Police Board, there are no component units to be included in the Police Board's financial report.

The accounting policies of the Au Gres-Sims Police Board conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Police Board:

**Government-wide and fund financial statements**

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government. Governmental activities, normally supported by taxes and inter-governmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses of a given function or segment are offset

by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenue are reported as general revenue.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**Measurement focus, basis of accounting and financial statement presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

**Au Gres-Sims Police Board**  
**Notes to Financial Statements**  
**June 30, 2006**

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The Police Board has one fund to account for all of its financial resources.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue.

**Assets, liabilities and net assets or equity**

*Cash and cash equivalents* – The Police Board has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of 3 months or less when acquired.

*Capital assets* – Capital assets, which include equipment and vehicles are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives.

Vehicles	5 to 10 years
Machinery and equipment	5 to 10 years

*Fund equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Comparative data**

Comparative data is not included in the Police Board's financial statements.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgetary information**

The Police Board is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The Police board prepares the proposed annual budget prior to the beginning of the next fiscal year. The proposed budget is then submitted to the City of AuGres and Sims Township for their approval.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

**Au Gres-Sims Police Board**  
**Notes to Financial Statements**  
**June 30, 2006**

**Excess of expenditures over appropriations**

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
General Fund			
Public Safety	\$ 143,400	\$ 157,012	\$ 13,612

**NOTE 3 - DEPOSITS**

*Credit Risk* - State statutes and the Police Board's investment policy authorize the Police Board to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The board is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

*Concentration of credit risk* – The government has no policy that would limit the amount that may be issued in any one issuer.

*Custodial Credit Risk – deposits* – the bank balance was \$10,536. The entire bank balance was covered by federal depository insurance.

**NOTE 4 - CAPITAL ASSETS**

Capital assets activity of the primary government for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets being depreciated				
Vehicles and equipment	\$ 70,588	\$ -	\$ 20,530	\$ 50,058
Less accumulated depreciation for vehicles and equipment	<u>41,388</u>	<u>10,130</u>	<u>20,530</u>	<u>30,988</u>
Net capital assets being depreciated	<u>\$ 29,200</u>	<u>\$ (10,130)</u>	<u>\$ -</u>	<u>\$ 19,070</u>

Depreciation expense was charged to the primary government in the amount of \$ 10,130 for the year ended June 30, 2006.

**NOTE 5 - RISK MANAGEMENT**

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The government has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**NOTE 6 - ECONOMIC DEPENDENCY**

The Police Board is economically dependent on the City of Au Gres and Sims Township. Approximately 93% of total revenue came from the two local governments.

**Au Gres-Sims Police Board**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule - General Fund**  
**Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Local contributions	\$ -	\$ -	\$ 1,000	\$ 1,000
Charges for services				
City of Au Gres	75,000	75,000	75,000	-
Sims Township	75,000	75,000	75,000	-
Interest income	-	-	87	87
Other revenue	-	-	2,101	2,101
Insurance recovery	-	-	7,989	7,989
Total revenues	<u>150,000</u>	<u>150,000</u>	<u>161,177</u>	<u>11,177</u>
<b>Expenditures</b>				
Public Safety				
Liability insurance	13,650	13,650	12,543	(1,107)
Employee insurance	27,350	27,350	27,079	(271)
Telephone	2,000	2,000	2,491	491
Miscellaneous	2,200	2,200	5,763	3,563
Supplies	800	800	409	(391)
Repair and maintenance	1,400	1,400	10,460	9,060
Gasoline	5,000	5,000	5,925	925
Wages	69,000	69,000	72,369	3,369
Payroll taxes	6,500	6,500	8,502	2,002
Retirement	9,500	9,500	6,671	(2,829)
Professional services	6,000	6,000	4,800	(1,200)
Capital outlay	<u>6,600</u>	<u>6,600</u>	<u>-</u>	<u>(6,600)</u>
Total expenditures	<u>150,000</u>	<u>150,000</u>	<u>157,012</u>	<u>7,012</u>
Net change in fund balance	-	-	4,165	4,165
Fund balance - beginning	<u>2,648</u>	<u>2,648</u>	<u>2,648</u>	<u>-</u>
Fund balance - ending	<u>\$ 2,648</u>	<u>\$ 2,648</u>	<u>\$ 6,813</u>	<u>\$ 4,165</u>



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December 15, 2006

To the Police Board  
of Au Gres-Sims Police Board

In planning and performing our audit of the financial statements of Au Gres-Sims Police Board for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect Au Gres-Sims Police Board's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable conditions that we believe to be material weaknesses.

Monthly bank reconciliations had stopped being performed for the general cash account in February 2006. In addition, all receipt and disbursement information had not been entered into the accounting software for the Equipment cash account. The completion of timely financial information is a key component of an internal control system. Management needs to have timely accurate financial information to properly oversee the financial condition of the police Board and to prevent fraud from occurring.

We strongly recommend that management take measures to insure that all bank accounts are being reconciled in a timely manner, and that all information is entered into the accounting software as soon as possible. This will catch any errors sooner rather than later, and improve the integrity of the financial accounting records.

The following is the status of prior year's management comment. This was not considered a reportable condition.

In the prior year we noted during the audit that it was not policy to cancel invoices once they have been paid. It was our recommendation that once an invoice has been paid that the check number used to pay the invoice should be written on the invoice as well as the date the check was issued as documentation that the expense has been paid. This will prevent paying an invoice twice. This has been implemented and corrected in the current year.

This report is intended solely for the information and use of Police Board, management, and others within the Au Gres-Sims Police Board and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

YEO & YEO, P.C.  
CPAs and Business Consultants

A handwritten signature in cursive script that reads 'Mari McKenzie'.

Mari McKenzie